SMALL BUSINESS: BIG POTENTIAL

Northwest Territories Economic Development and Tourism

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February 1990

SMALL BUSINESS:
BIG POTENTIAL

Small businesses in the Northwest Territories collectively have the greatest impact on the N.W.T. economy. Small business has the potential to contribute even more. In some industries and regions there have been dramatic increases in the growth of small business, both in their numbers and their revenues in the past 10 years. Their importance to the northern economy has increased proportionately.

Small business is the largest single employer of wage earners in the territories. In 1985 the N.W.T. Business Directory listed 2,400 active businesses. By 1988 there were over 4,000 registered businesses (N.W.T. Trade and Investment) in the Northwest Territories. A large majority are small businesses.

The growth in the number of small businesses and their prosperity has been greatest in the large urban centres. The major challenge for the future is to find ways to extend that prosperity to all communities and regions. This strategy aims to overcome the obstacles which have prevented this from happening in the past.

But, before we look at solutions, let's examine small business in more depth. Let's look at how we can measure the health of small business, what the opportunities for growth are, and the difficulties which need to be overcome.

WHAT IS A SMALL BUSINESS?

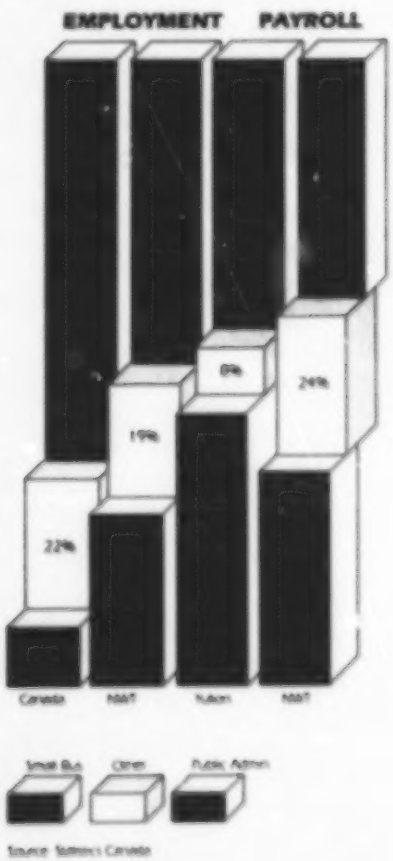
Statistics Canada defines a small business as a company reporting gross revenue of between $10,000 and $2 million a year. Of course that definition can include a wide range of commercial enterprises. There is a broad variety of goods and services provided by small business, and they vary greatly in their size, income and structure. Small business is really a catch-all term which includes everything from the small one-person outfitting operation, a community co-op store, a construction company to a translation service. The only real requirement is that revenues fall somewhere within the broad range of $10,000 and $2 million.

In the N.W.T., small businesses have the following characteristics:

- On average, they each employ approximately eight people.
- They are found in virtually every community in the N.W.T.
- Small businesses operate in a variety of industries - wholesale and retail trade, professional and business services, hospitality services, general services including community and health services, manufacturing, and construction.
- 90% of all income in the business sector is generated by small business.

The range and diversity of goods and services provided by small business in northern communities depend on the size of the local market, local incomes, local costs of production or services, the cost of importing products, and the availability of products and services from the south.

MAJOR SECTORS - 1986



SMALL BUSINESS AND OUR NORTHERN ECONOMY

How do we measure the importance of small business to the N.W.T. economy? The yardstick generally used is the small business contribution to the territorial Gross Domestic Product (GDP). Gross Domestic Product is aptly defined as a territorial income statement. The credits are the value of purchases, investments and wages. The credits represent profits or money generated within the territories. The debits are the value of imports, or loss of money to outside the territories. The "bottom line" or GDP is the difference between credits and debits. The GDP gives us the average annual growth of the territorial economy.

A major reason for small business' major impact on the N.W.T. economy is that dollars spent in the small business sector stay longer in the territorial economy than dollars spent elsewhere. The economy of the Northwest Territories is sometimes compared to a "third-world economy," because so many of our dollars immediately leave the N.W.T. These dollars are spent on imports, and we import much more than we export.

By increasing the small business contribution to the GDP, we are increasing the health of our economy. This is perhaps the greatest single reason for all of us to be concerned about the health of small business. Keeping our money in the N.W.T. creates jobs and opportunities for more wealth.

MEASURING THE IMPACT OF SMALL BUSINESS

The GDP is measured for the entire Northwest Territories. It does not reflect events within a community or region. This means that while the GDP has grown steadily since 1980, the situation in a particular region or community may be quite different.

Let's look at the impact of small business on the territorial income statement or GDP more closely.

The Credits:

- Employment and Labour Income
- Investments
- Purchases
- Employment

In 1986 small businesses provided 52% of the jobs in the N.W.T., compared to government at 29%, and other sectors at 19%.

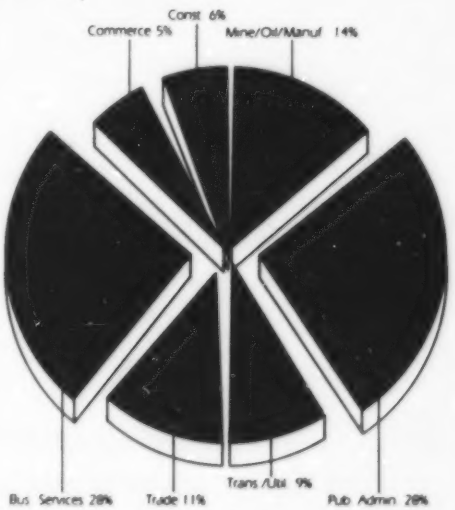
In the decade ending in 1986 small business created 3,800 new jobs. Between 1985 and 1988 some 1,800 new jobs were created by small businesses. There is good reason to be optimistic for continued growth in this sector.

Labour Income

Given the volume of small business activity and its income generating capacity, it is not surprising that small business is our major source of wages and salaries.

In 1986 small business represented 41% ($320 million) of the total income earned by territorial residents, compared to the 36% ($281 million) of income earned by government employees.

NWT INDUSTRIAL EMPLOYMENT 1988



Source Bureau of Statistics

Small Business Employment, by Region

	Number of Bus.	Jobs* in Bus.	Labour force	Ratio job/labour	Pop.	Bus. jobs per capita
Fort Smith	967	8039	13224	60.7%	24,845	.32
Inuvik	332	2547	3808	67.6%	7,731	.33
Baffin	249	2168	3999	54.0%	10,478	.21
Keewatin	155	899	1846	48.6%	5,247	.17
Kitikmeot	86	547	1372	39.9%	3,997	.14
Territorial	1789	14200	24249	58.6%	52,298	.27

*Source 1989 N.W.T. Labour Force Survey

Purchases

In 1987 retail businesses in the N.W.T. sold goods valued at $285.4 million. N.W.T. retail sales contributed 8% to the GDP. The service sector contributed slightly more to the GDP in 1988, 9%, even though expenditures on northern services were much less.

Investment

The total value of investment activity on capital projects in the territorial economy is volatile. Investment tends to peak during periods of resource development. When resource development stops or slows down, investment continues its upward trend for a period of time. This is largely due to government investment which often continues in community infrastructure and defence.

There were large resource development investments in the early to mid-1980s. This was a result of oil and gas exploration and pipeline construction. The benefits to the economy were offset however, by an increase in imports.

N.W.T. Small Businesses have not benefited greatly from resource development expenditures. Consequently they are somewhat insulated from the downside effects of periods of low investment.

The Debits: Imports

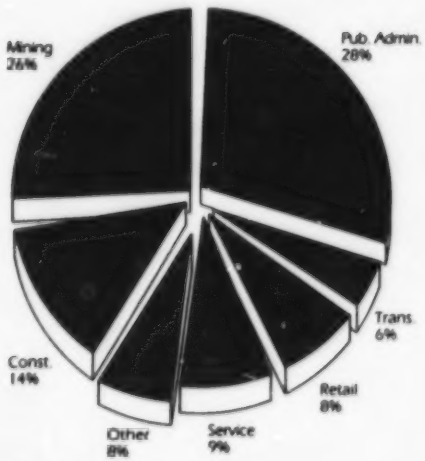
Although our small business sector is out front in terms of its contribution to the credit side of the GDP statement, it has a poor track record on the debit side.

Small business offers much to the northern economy in terms of jobs and income. The flipside of the picture is the amount of our money which is spent on goods and services purchased from outside the territories. Small business accounts for few exports in the way of goods and services. And, its sales and service income doesn't come near to what we spend on purchases outside the N.W.T.

It is widely known that many of our goods and services are imported. The value of our imports is larger than our exports, which are largely limited to furs and non-renewable resources. When we import goods and services, we are helping create income and jobs in other jurisdictions, rather than in the N.W.T.

How much do we import? A study (Import Substitution Opportunities) placed the value of imports for fuel, food, lumber, vehicles, machinery, and general merchandise at $1.1 billion in 1984, while the value of imported services was $57.5 million.

NWT GDP BY INDUSTRY



Source: NWT Economic Model,
Dec. 1988 Experimental Forecast

THE IMPACT OF GOVERNMENT SPENDING

Government recognizes the importance of small business to a healthy economy. In the N.W.T., because government spending makes up such a great proportion of the dollars spent, it has considerable influence over how well small business does. Studies from the mid-1980s indicate that government spending ranged from 18% to 37% of the total retail expenditures.

Government spending has more impact than dollars spent by other major

industries because of a lower capital/expenditure ratio. Every northern government dollar spent can stimulate as much as a further $2.10 worth of economic activity in the N.W.T. This compares with the mining industry which may generate a further $0.53 in activity.

The pattern of spending on goods and services, and subsequently the benefits to the small business sector, vary significantly between the federal and territorial governments.

The charts to the right show that the Government of the Northwest Territories purchases more of its goods and services than do either the federal government or private industry.

The higher rate of northern purchases by the territorial government may be a result of the Business Incentive Policy, which gives northern suppliers a price advantage of up to $175,000 on any contract.

It is significant to note that 80.3% of the G.N.W.T. service purchases are from northern suppliers. As an example, the Department of Public Works, in 1987/88, awarded a total of 1232 contracts involving construction, operations and maintenance. Of this total, 89% (1092) were directed to northern contractors.The total value of contracts awarded to northern contractors amounted to $71.5 million. Of the total number of contracts tendered and awarded for specialized services involving engineering and architecture, 91% were awarded to northern firms representing 95% of the total dollar value spent on consultant services.

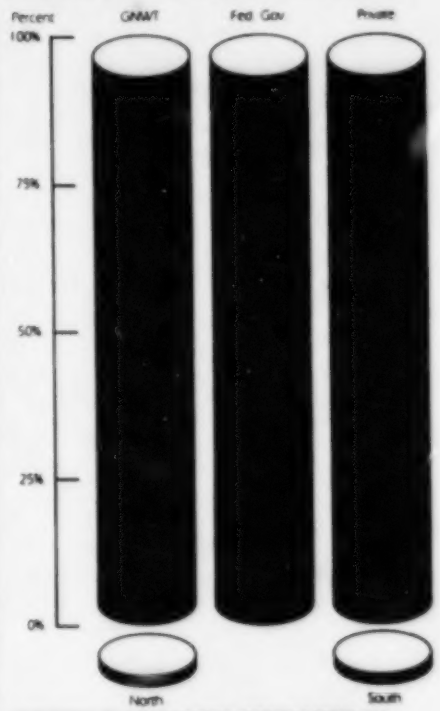
A second example involves the Department of Government Services which acts as the "purchaser" for all departments of the government. During 1985/86 the Department purchased goods valued at approximately $35 million. This amount again excludes purchases made by crown corporations and/or public agencies and also the purchase of petroleum products. Of this amount, 47% ($16 million) was purchased from northern suppliers. In 1987/88 the Department increased the total value of purchases (excluding petroleum products) to $57 million of which 51% ($28.8 million) was acquired from northern suppliers. As for petroleum products, approximately 25% of government requirements are being purchased in Norman Wells. This represents an expenditure of approximately $6 million.

SMALL BUSINESS AND THE NON-RENEWABLE RESOURCE INDUSTRY

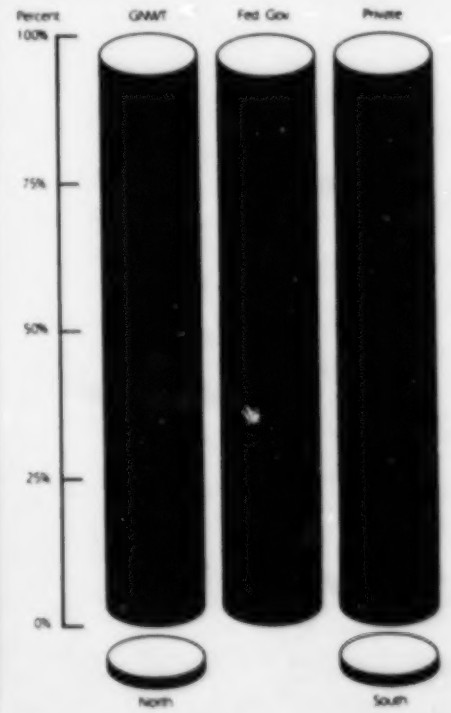
In a 1987 analysis, it was determined that the N.W.T. mining industry spends $143 million per year on goods and services. N.W.T. businesses supply 38% of those goods and services. Approximately two-thirds of the mining industry's purchases are made during the exploration and development stages. The other one-third is spent once mines are operating.

During periods of high oil and gas exploration activity, the northern economy receives substantial capital investment, however the net benefit to northern small business suppliers is inconsequential for the most part. The bulk of oil and gas industry-related spending is directed at imports.

SERVICE PURCHASES NWT 1985-86



GOODS PURCHASES NWT 1985-86



Source: Don Ference & Associates Ltd

THE CO-OP MOVEMENT

Community-based co-ops have a long northern history of providing needed goods and services, often in communities where the small market size has failed to attract private entrepreneurs. These small businesses have had their difficulties over the years, but the successes offer some interesting lessons for other small businesses.

Many of the co-ops found across the N.W.T. are members of Arctic Co-operatives Limited. Record sales of $47 million in 1988 and steady income growth over the past 10 years are important highlights of the 1988 Arctic Co-operatives financial statement. Of the $47 million generated, all but the $2 million profit was reinvested.

The number of member co-ops reporting net losses was reduced from 19 in 1987, to five in 1988. The majority of co-ops, 21 of the 34 in the N.W.T., are located in communities with small traditional markets of less than 600 people. Eleven are located in communities with emerging markets where the population exceeds 600, but is under 2,000. The remaining two co-ops are in large, diversified communities with mature markets.

The recent success of the co-ops can in part be traced to the introduction in

BREAKING NEW GROUND

There is goodwill on both sides as Neptune Resources and the Dogrib Tribal Council work to ensure a new goldmine benefits people living in neighbouring communities.

Neptune Resources and the Dogrib Tribal Council are breaking new ground in relations between the mining industry and the north's aboriginal people. The Colomac mine, 250 kilometres northwest of Yellowknife, will employ approximately 300 people when it begins full production. An agreement, negotiated by the Tribal Council and Neptune last June, calls for residents of the mine's neighbouring Dogrib communities to get first call on business opportunities, training, and 25 percent of the mine jobs. Even though the agreement is not yet in effect, the local employment goal has been realized during the construction period. And, training has been aimed at skills which will also be needed once the mine is producing.

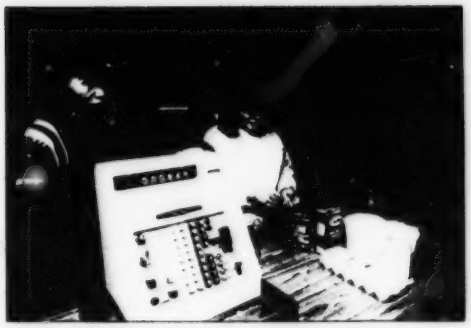
The Tribal Council is attempting to have the jobs distributed among all the communities it represents. "There's a lot of goodwill," says Dan Marion, of the Rae-Edzo Development Corporation, which is taking a lead role in local attempts to make the most of the opportunities presented by the mine and the agreement with Neptune. "For our part, we're trying to choose individuals who have good training potential. We have to play fair and know our people can do the job before we send them out there."

TANGIBLE BENEFITS FOR MINE AND LOCAL PEOPLE

Jim Johnstone is the new general manager for Neptune in Yellowknife. He points to the tangible benefits local employment can have for the mining company. "If we hire locally we have a lot better chance of people staying on the job, than if we hire someone from Saskatoon who will only stay as long as a mine doesn't open up close to his home. There are also the economics of moving people around from Rae rather than Edmonton, although I don't have any figures on that. The biggest constraint is probably prejudice about whether it can work or not. One of the things we're looking for when we're hiring people is any bias against native employment. Work has to be done in this regard about selection of people on both sides."

1986 of the N.W.T. Co-operative Business Development Fund. The Fund was established to provide member co-ops access to affordable financing.

The problem of accessing loans, particularly for business in the small, traditional communities, is not unique to co-ops. The G.N.W.T. recognizes that more accessible financing is required by all small business.



EXISTING GOVERNMENT ASSISTANCE TO SMALL BUSINESS

Current government programs have been directed towards increasing the number of jobs and incomes provided by business development in the Northwest Territories. The G.N.W.T. makes loans available when commercial lenders refuse to, and provides direct grants or contributions. These programs were designed to generate economic activity in the small business sector.

Loans and contributions are important in filling the gap between an investor's own equity and the total amount of money required to start or expand a business.

In 1988, the Department of Economic Development and Tourism's programs delivered $4.4 million in funding assistance to businesses. However, financial assistance provided by the government to business forms only a small part of the total capital investment. Excluding money spent to build houses and oil, gas and mining dollars, government investment accounts for only 14.6% of the $143.3 million invested in the N.W.T.

Mr. Johnstone maintains that commitment to local participation at the management level of Neptune Resources has to be accompanied by the same commitment among its workers.

The territorial and federal governments have provided assistance with on-the-job training for everything from millwrights to administrative personnel. Mr. Johnstone says that while all mines have to do a lot of training anyway, government assistance "levels the playing field" for someone with little or no relevant experience.

NEXT CHALLENGE IS ATTRACTING MINE BUSINESS

While much of the emphasis has been on jobs so far, people in Dogrib communities will be working to attract mine business once gold production starts. Mr. Marion says people are already looking at a variety of goods and services which they might provide. They include everything from catering, airplane charters, wholesale chemical needs, a supply staging area and iron balls. He says there are some major obstacles for people to overcome. The obstacles relate to raising equity and working through the red tape of various government agencies and departments. The agreement calls for three committees to ensure good communication between the parties and monitor the success of the local participation objectives.

Treminco Resources has a smaller gold mining operation, at the Ptarmigan site near Yellowknife. Treminco and the Yellowknife Metis Local and Yellowknife B Dene Band are attempting to negotiate their own agreement to ensure local native people benefit from that project. They are among the many northern people and businesses closely watching the Colomac project. Mr. Marion says the long term success of the agreement between Neptune Resources and the Tribal Council depends on the economic benefits becoming more widespread among the Dogrib communities.

"The success is that we're in this thing at all and able to keep the employment at the 25 percent level. The good part is we've got 45 people working and learning new jobs. The sad part is that there are 400 other people disappointed because they are without a job."

POTENTIAL FOR SMALL BUSINESS GROWTH

Further growth in small business would help the economy of the N.W.T. The goal is to have this growth happen in a way that benefits the north most. The growth trend of the past 10 years can be expected to continue well into the next decade. As early as 1991 the GDP is expected to exceed $2.1 billion, up from its current level of $1.6 billion. The larger the small business portion of the GDP, the more we all benefit.

We are moving into a new and exciting era for small business development in the N.W.T. In order for small business to keep pace with the forecasted GDP growth, priority must be given to improved employment opportunities and increased personal income, and goods and service spending in the N.W.T.

An analysis of the N.W.T. economy demonstrates that the bulk of our goods and services are imported from origins outside the N.W.T. We, in turn send comparatively few finished products to southern markets. The net effect is a territorial/regional imbalance of trade. Often, dollars brought into the N.W.T. through transfer payments from the federal government (i.e. family allowance income) immediately pass out of the region, in exchange for products or services not available locally.

The aggressive small business entrepreneur looking ahead to the 1990's will want to capture a greater share of the market, and at the same time deliver a cost effective product to market. New opportunities will be seized as they are identified. Given a skilled workforce and adequate working capital, small business will undoubtedly improve the contribution that it makes to the GDP.

But successful or aspiring entrepreneurs must know where to focus their efforts. Any decision to tap untested markets will be based on sound feasibility analysis and a knowledge that they can be competitive in supplying goods or services. According to recent economic theories, the two areas which offer the most room for expansion are increasing our exports, and second, replacing imports with locally-produced products.

Import Substitution Offers Significant Opportunity

Of the two suggested expansion opportunities, import replacement offers the greatest potential. In most cases the entrepreneur has ready access to the marketplace. Northern small business knows the northern market best. And, by concentrating on supplying goods to the north, there is less financial burden than cultivating export markets.

Recent assessments of the northern economy (Strategies to Improve Northwest Territories Business Opportunities Related to Mining and Exploration and Import Substitution Opportunities) have determined where each industry sector should focus its attention, and the business opportunities available to improve market share as a result of import substitution. The 1987 assessment of the mining industry alone pointed to the potential for increasing northern purchases by $12.5 million annually. Most of this increase in northern business is likely to occur in Hay River, Yellowknife and the Keewatin Region where mining activity is expected to be highest.

TARGETS FOR IMPORT REPLACEMENT

It is not realistic to expect that northerners will be able to buy cars built in the north, but there are realizable goals which have been identified. Import substitution can replace an estimated $34.1 million in goods and services currently purchased outside the N.W.T. The imported goods and services which could be provided in the north are outlined below, along with the targets which are considered realistic during the next five years.

Food - The target is to produce and sell $5.5 million worth of N.W.T. food a year. That is a four percent increase over current levels, to 27% of the value of food products consumed in the N.W.T. The major small business opportunity is in the replacement of meat and fish products imported from the south. There is also potential for local gardening and small commercial greenhouses to replace some of imported fresh produce.

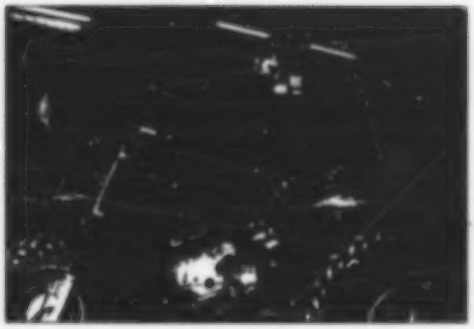
Manufacturing - The target is $5.7 million or a nine to 11% increase in the value of goods purchased by government, private businesses and individuals. Small business opportunities have been identified in lumber and arts and crafts production. Our timber resources are vastly under-utilized. The opportunity in the timber industry could have even more significance if we produced the more costly secondary products as well as raw lumber. This further initiative requires appropriate technology and infrastructure to be in place.

Business Services - The target is $5 million or an increased market share from 50% to 55% of the value of existing services. Major small business opportunities have been identified in transportation and construction services, real estate and rentals.

Trade - The target is $1.7 million. This would increase the northern market share to 31% from 27% of the goods purchased in the wholesale and retail trade sector. The opportunities for small business exist in providing office and computer equipment supplies and services, electrical and communication equipment, and small equipment and tools.

Goods and Services to the Mining Sector - The target is $16.2 million or a market share increase from 38% to 40%.

SO WHAT'S THE PROBLEM?



We know small business is important to the future of the northern economy. New jobs depend on an expanding small business sector. The greatest potential for that expansion lies with replacing at least some of the goods and services we currently import from elsewhere.

The ability of small business to participate in the potential growth of the N.W.T. economy will depend on its ability to overcome the special environmental circumstances present in many small N.W.T. communities.

Although the GDP indicates a strong and improving territorial economy, the reality is that the economy is not in balance. If territorial economic data is looked at closely, it becomes clear that there are three distinct community economies at work in the N.W.T. The market potential for small business will vary in each of these community settings.

MARKET POTENTIAL FOR SMALL BUSINESS

The N.W.T.'s small population means there are a very limited number of consumers for any given product or service. This limits greatly the opportunities for small business. Sometimes there are no profits generated by supplying a product or service to such a small population.

Even if there is sufficient demand, people need to have the money to pay for a product or service. The high unemployment rates in some northern communities result in very little disposable income for many families. These kinds of obstacles to small business are greatest in the small traditional community. Small communities with low per capita incomes are numerous in relation to communities with a high population and high per capita incomes in the N.W.T.

Currently there are an average of 7 small businesses in communities with less than 600 people and per capita income of $6,011. Many of the communities that are currently in this traditional market category will certainly exceed a population of 600 by the year 2000 at current population rates. But for the rate of small business to improve beyond current rates, the level of per capita income must correspondingly increase.

Communities considered to have emerging or developing markets are less numerous than the traditional market group. The population base is larger than the traditional community group but the per capita income is still low. These communities generally have an overall larger market for business to share. There are an average of 34 businesses per capita in these communities. A higher per capita income is required for any significant increase in the number of small businesses in the emerging market community.

There are many more small businesses operating in the larger more diverse urban centres. But only a few communities fall into this category of mature markets where populations and per capita income are high. The average number of businesses per capita is 20. By the year 2000 under current market conditions, the mature market communities can be expected to be in the best position to capture improvements in the territorial economy.

COSTS OF SUPPLYING GOODS AND SERVICES TO NORTHERN MARKETS

Not only do small and emerging markets have difficulty supporting small business, but the costs associated with delivering competitively-priced products often restrict trade in rural and remote areas to costly imports. The following is an outline of some of the other difficulties faced by small northern businesses.

Expensive Staffing: Compared to our southern business competitors, wage and benefit packages are considerably higher. Small business is often required to provide or subsidize housing for its employees, provide a cost of living allowance, and a vacation subsidy. Product pricing must absorb these high costs, yet be competitive.

Availability of Skilled Labour: Should a community business be capable of climbing the high wage and benefit package hurdle, the next step will be to find skilled business managers and qualified, dedicated staff. A community market analysis suggests that while a sufficient market exists for a number of small or micro businesses, a lack of basic education and training among the labour force could prove a formidable barrier.

The 1989 N.W.T. Labour Force Survey found that in all small and emerging market communities, there were fewer than 300 unemployed people with a grade 10 education or more. Fierce competition for the available skilled workers is also found even in mature market communities.

Expensive Overhead: Small business must contend with expensive overhead. The costs of operating and maintaining a business increase as we move from an urban to a rural setting. There are few real estate markets in the N.W.T. Even in Yellowknife, with its active real estate market, there are limited options and available retail space.

Inventory and Timing: It is a delicate balancing act to maintain enough inventory to meet customer demand, but not so much that increased operating costs result. Northern businessmen who fail to prevent stock shortages often face premium shipping rates in order to supply the servicing and product demands of clients.

Northern business also has to contend with increasing competition from southern suppliers with access to advanced technology which allow materials and supplies to be scheduled to a point where waiting time is approaching zero. In the N.W.T., transportation difficulties add to the inventory management challenges already facing small business.

Technology: Advances in technology have resulted in marked decreases in southern product costs. The introduction of computer-aided design, new production and processing methods, improved communications equipment and sophisticated management practices have increased competition. As well as the cost, a scarcity of skilled technical and trades people has deterred northern small business from embracing new technology.

Information is Power: Many northern entrepreneurs are often outside the mainstream of the flow of product information. Although northerners are paying premium rates for goods and services, state-of-the-art products or special deals accessible to southern markets often may be slow to reach northern consumers, if they become available at all.

PRINCIPLES FOR DEVELOPING THE SMALL BUSINESS SECTOR

The Government of the N.W.T. can be a major player in eliminating some of the barriers to small business development throughout the N.W.T. in the next decade. To meet the challenges of the 1990's, the G.N.W.T. will plan policies and programs guided by the following set of principles:

1. *The G.N.W.T. recognizes the importance of small independent entrepreneurs to the N.W.T. economy.*
2. *Special consideration will be given to addressing the needs of small business operating in small domestic markets.*
3. *Policies and programs will be designed to address the full spectrum of needs throughout the life of a small business.*

QUALITY AND SERVICE HALLMARKS OF MANUFACTURING COMPANY

Finding the right mix of products and a niche in the specialty market spell success for Fort McPherson Tent and Canvas. Backpacks, duffle bags and flight bags, carefully crafted in Fort McPherson, are finding their way around the globe. Every day the mail at Fort McPherson Tent and Canvas contains orders from as far away as New Zealand.

Quality products and service are making it hard for the shop to meet the demand for its products. By the middle of last August, it was running out of merchandise.

"We thought we had more than enough stock," says Mia Boogers, an experienced seamstress who has worked at the shop for 10 years along with her husband, who manages the operation. But the inventory was gobbled up by tourists, who are making shopping trips at the factory an integral element of travelling the Dempster Highway. "Last year I don't know how many orders we had to cancel because we couldn't cope."

The tent and canvas shop was established in the early 1970s to provide wage employment in Fort McPherson. Still owned by the Department of Economic Development and Tourism, it is becoming increasingly independent of government assistance.

SHOP EXPANSION CONSIDERED TO MEET DEMAND

Consideration is now being given to expanding the production facilities. The 15 employees are approaching the limit of what it is possible to produce in the existing space.

"What we're planning is to set up a sewing program in conjunction with the school to get more people interested in this line of work. If the expansion goes through we're going to need more people to increase production," Mrs. Boogers says she and her husband are also attempting to find a local person interested in training to take over management of the shop.

The growing success of the project is attributed to its revised product line, a more streamlined factory, and increased promotion. The popularity of its brightly-coloured luggage and tote bags, all bearing a distinctive polar bear logo, are proving the shop is on the right track with its product line. Light-weight fabric tents and tips are now being produced along with the heavy canvas prospector tents. The products are designed to

4. Special consideration will be given to businesses operating in industries which optimize the use of northern labour and resources.
5. Economic viability will be a precondition of financial assistance.
6. The Department of Economic Development and Tourism is the prime government agency and advocate for N.W.T. business.
7. G.N.W.T. purchasing and contracting procedures will emphasize a "northern business first" philosophy.

appeal to northern customers as well as the outside market which is needed to keep the operation viable.

"We've gone to top-of-the-line bags because we can't compete with the cheaper mass-produced products," explains Mrs. Boogers. Fort McPherson Tent and Canvas seems to have found the right niche in the marketplace after hard lessons in the past. One of these was trying to produce coveralls for the oil and gas industry. While the demand was high for the coveralls they cost more to produce at the shop than the industry was willing to pay for them.

Efficiency and working conditions at the shop have improved as a result of upgrading the shop and equipment, and changing the factory layout.

ZEROING IN ON MARKET AT TRADE AND SPORTSMAN SHOWS

Fort McPherson tents and canvas bags have become internationally known. At least part of the reason is John Booger's attendance at trade shows and sportsman's shows. These events allow the company to attract the specialty market which is prepared to pay the price for well-designed, high quality, rugged outdoor gear.

Thousands of miles away from its suppliers and a large portion of its market, the factory has surprisingly few transportation problems except during freeze-up and break-up. In the fall and spring it takes careful timing to make sure the necessary materials are in stock so that production is not held up.

Fort McPherson Tent and Canvas management and staff sell most of their products directly to their customers. Whether the sale involves a tourist in search of a useful souvenir, or an outfitter looking for camp supplies, fast and helpful service is a hallmark of the operation. The shop continues to do custom orders, such as the specially-designed circular tent used by the Dene Nation for its annual assemblies.

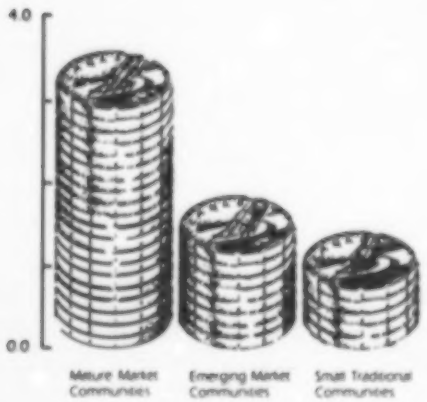
"It's always been one of our aims, that the customer is king," says Mrs. Boogers. "We try to give good service. If someone is not happy with something, whatever the reason, we replace it."

A PLAN OF ACTION FOR DEVELOPING THE SMALL BUSINESS SECTOR

There are now 22 different programs offered by the Department and another 18 under the Federal-Territorial Economic Development Agreement. Still there are significant areas where there are no programs. As would be expected businesses located in the major communities have been most successful in obtaining funding. This is partly because of better access to information but also because criteria favour business proposals which have the least risk. Starting a business in a small traditional community obviously involves much higher risks than in the larger urban communities. As well, smaller communities lack the initial equity requirement and there is a smaller pool of business skills.

Based on our review of the Department's programs we acknowledge a need to change criteria to recognize the higher risks of investing in the smaller communities and to improve our procedures for getting information out on our programs. In developing a strategy for economic devepment, the Department understands that the best method of promoting economic development is through the private sector. Consequently the Department is presenting a five part plan to meet the objectives stated in our Building on Strengths Strategy.

DISTRIBUTION OF CONTRIBUTIONS BY COMMUNITY GROUP ($ MILLIONS)



1. IMPROVED ACCESS TO CAPITAL

New business requires capital. If the business proprietor has personal capital which can be invested he/she can use it to invest in the new business or use it as security to obtain funds form a private lending institution. Our programs are designed to fill gaps when a person has a good business idea but because of a lack of capital cannot start up a business. The Department has modified its programs to reflect industry and regional development priorities by varying eligibility requirement to reflect risk and availability of private capital. The program changes are discussed below.

Business Loan Fund

The Business Loan Fund (BLF) is designed to be a lender of last resort. Decisions are recommended by a Board composed of private citizens. A business has to be turned down by a commercial lender before it will be considered by the Business Loan Fund. The Department is proposing changes which will increase the autonomy of the Board. The Department will waive the formality of having to obtain a bank refusal in communities where no commercial lending services are available. Another and perhaps more serious problem is the limited flexibility allowed under the current act. Other changes are being proposed which will allow the BLF board to schedule interest and principal payments to reflect lower profit potential in the early stages of a new business.

Another important innovation is the introduction of the Community based Self Employment Loan Fund (SELF) which will provide small loans up to $3000 to micro or home businesses. Under this program a formal business plan is not required. The applicant has only to convince a group of his peers that he/she is a worthy credit risk.

Business Development Programs

The area of the most significant change is the 22 programs which now provide financial assistance to business. These programs will be collapsed into two programs: one for business and another for industry associations.

Under the consolidated Business Development Program business applicants will be eligible for financial assistance to cover a full range of business needs. The amount of assistance will be tied to the industry development and regional priorities and the point which the business is in at its business cycle. Administrative arrangements will be changed to simplify procedures and to provide immediate information, if requested, on the status of a proposal within the system.

N.W.T. Development Corporation's Joint Ventures

A separate Joint Venture fund will be set up within the new Development Corporation to provide equity funds to businesses. Companies receiving equity funds will have the option of buying out the government interest once it reaches profitability. Normally, the Corporation would be the investor of last resort. The current Venture Capital Program will be simplified and remain available.

2. INDUSTRY DEVELOPMENT

Our industrial base is narrow. Investors in an underdeveloped industry, such as forestry or manufacturing, do not have the advantage of sharing the cost of infrastructure with other participants. The cost of industry overhead like product and market development, promotion and major capital equipment, on top of the high cost of operating in the north, severely limit development. By targeting specific sectors for public investment, assistance will be provided to businesses to overcome entry costs. We will also be looking at ways to encourage integration between sectors to maximize the use of major capital investment. One example may be by using equipment used in summer road construction for hauling logs to a mill.

One of the main themes of the negotiations to replace the existing EDA will be the identification of and programming for underdeveloped sectors which have potential for growth.

3. BUY NORTH

Individuals, businesses and governments interested in minimizing costs necessary to maintain competitiveness often look to southern Canada for goods and services. The net effect of these decisions are lost opportunities for northern businesses. It is hoped that through the "Buy North" program consumers will be encouraged to spend more of their money at home. Compliance will be encouraged but not enforced. The beneficiaries will be consumers who will have a wider range of goods and services locally available. The components of this program include:

- An annual report on where the Government of the N.W.T. spends its money - Government performance will be compared to industry and private consumers. Additional information will be provided on the amounts and types of expenditures in the south. This information would be useful to business persons who may wish to identify opportunities for new or expanded businesses.

- Existing purchasing preference policies will be maintained or enhanced.
- A radio and print campaign will be launched promoting the benefits of purchasing north. The "Buy North" logo and associated promotional material will be given out to businesses wishing to display it.

4. DEVELOPING A SERVICE ETHIC

The Department has placed a priority on providing communities direct access to financial assistance and counselling services. There are now 34 officers set up in community offices to serve the business community. The major drawback to departmental officials was a lack of programs which could assist in development of opportunities in local economies. The new programs will enable local officials to play a more developmental role in the underdeveloped communities.

5. IMPROVED COMMUNICATIONS

The challenge of improving connections between the Department and northern businesses has prompted the development of a communications program. The main elements of this program include:

- Assistance to the N.W.T. Chamber of Commerce to produce a newsletter to keep members abreast of information useful to local businesspersons. It will also enable the government to keep the business community aware of the various programs offered by government to assist business.
- Assembling community profiles and a data base to assist aspiring entrepreneurs to identify and analyze potential business opportunities.
- Establishing an 800 number to enable the public to obtain general information or specific information on the status of proposals being considered by the Department.

The growth in small business in the past decade has meant increasing jobs for northerners, more income and a greater volume of retail and service sales.

SUMMARY

When one examines the performance of small business, two weaknesses become clear. First, small business growth and the government's ability to encourage expansion has been limited largely to the most developed communities in the N.W.T.– Yellowknife, Hay River and Inuvik. Second, we don't produce or supply enough of our goods and services here in the north. The greatest potential for future growth lies in producing and suppling goods to northern markets which will replace imports.

The G.N.W.T. recognizes the importance of small business generally, and the individual entrepreneur specifically. The Department's Strategy is aimed at improving the climate, conditions and opportunities for new small businesses, particularly in the small and emerging communities.

And what impact will the new G.N.W.T. initiatives have on small business in the N.W.T.? As a responsible public agency, regular monitoring and evaluation is built into these programs. The basis for evaluation will be the effectiveness of the initiatives in: a) replacing imports according to the targets outlined; and b) encouraging and stimulating small business, particularly in the smaller less-developed communities.